

Message Text

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PAGE 01 MADRID 06436 301941Z
ACTION EUR-12

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C O N F I D E N T I A L MADRID 6436

E.O. 11652: GDS
TAGS: ECON, PINT, SP
SUBJECT: SPANISH ECONOMIC PROGRAM

1. I CALLED ON VICE PRESIDENT FOR ECONOMIC AFFAIRS AND MINISTER OF ECONOMY FUENTES QUINTANA ON AUGUST 30 FOR A BRIEF, BUT VERY CORDIAL GENERAL DISCUSSION OF THE GOS ECONOMIC PROGRAM FOR WHICH HE HAS BORNE THE MAJOR RESPONSIBILITY.

2. FUENTES QUINTANA SAID IT WAS OBVIOUS THAT SPAIN COULD NOT CONSOLIDATE ITS EVOLUTION TOWARD DEMOCRACY WITHOUT A SOUND ECONOMIC SITUATION. THERE WAS MUCH TO BE DONE IN THIS FIELD TO ADAPT THE SPANISH ECONOMY AND THE PRACTICES OF THE PAST YEARS TO THE NEW SITUATION. WHILE IN RETROSPECT THERE MAY HAVE BEEN SOME GAPS IN THE PRESENTATION OF THE ECONOMIC PROGRAM, HE NONETHELESS FELT THAT IT FORMED A SOLID BASIS ON WHICH TO MAKE PROGRESS IN THE MONTHS AHEAD. HE BELIEVED THE PROGRAM WAS A BALANCED ONE AND THAT IT ONLY COULD BE SUCCESSFULLY IMPLEMENTED IF IT RETAINED THE BALANCE BETWEEN THE VARIOUS SECTORS INVOLVED. THIS MEANT BRINGING MANAGEMENT AND LABOR ALONG SO THAT NEITHER WOULD FEEL THE OTHER WAS BEING ESPECIALLY ADVANTAGED.

3. WITH REGARD TO LABOR, FUENTES QUINTANA SHOWED MORE OPTIMISM THAN HAD STATE SECRETARY RENDUELAS IN A CONVERSATION WITH EMBASSY OFFICERS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 06436 301941Z

ON AUGUST 26. HE FELT THAT LABOR DID APPRECIATE THE SERIOUSNESS OF THE

PROBLEMS AND THAT IN THE FINAL ANALYSIS IT WOULD NOT BE INTRANS-
IGENT REGARDING MODERATION IN WAGE SETTLEMENTS. HE NOTED THAT
THE COMMUNIST WORKERS' COMMISSIONS WERE SHOWING A MORE COOPERATIVE
ATTITUDE AND A BETTER UNDERSTANDING THAN SOME OF THE OTHER UNIONS.

4. IN REGARD TO MANAGEMENT AND THE FINANCIAL COMMUNITY, FUENTES QUINTANA SAID HE HAD ALSO BEEN ENCOURAGED BY THE ATTITUDE SHOWN BY POLITICAL PARTIES TOWARD THE INITIAL TAX REFORMS WHICH ARE NOW BEFORE THE CORTES. THERE HAD BEEN NO "AMENDMENTS TO THE WHOLE" (WHICH, IF APPROVED, MEANT REJECTION OF THE MEASURE) AND SUCH AMENDMENTS AS HAD BEEN MADE HAD BEEN QUITE MODERATE. EVEL ALIANZA POPULAR HAD TAKEN A MODERATE ATTITUDE IN CONTRAST WITH SOME OF THE POSITIONS ESPOUSED BY RIGHT-WING FINANCIAL AND BUSINESS CIRCLES. FUENTES QUINTANA SAID THAT HIS FIRST MEETING WITH MANAGEMENT REPRESENTATIVES HAD BEEN A DIFFICULT ONE BUT SUBSEQUENT ONES HAD IMPROVED AS MANAGEMENT GAINED A BETTER UNDERSTANDING OF THE GOVERNMENT'S PROGRAM. HE STRESSED THAT IT WAS ESSENTIAL THAT SPAIN HAVE A MODERN TAX SYSTEM TO PROVIDE THE RESOURCES WHICH WOULD ALSO IN PART RELIEVE THE HEAVY CHARGES FOR SOCIAL SECURITY BEING BORNE BY PRIVATE ENTERPRISE. TODAY THERE WERE ONLY ABOUT 10,000 SPANIARDS REGULARLY PAYING GENERAL INCOME TAXES. IF REFORM CAN BE INTRODUCED AND BE SUCCESSFUL, THEN TAX RATES CAN BE DROPPED.

5. FUENTES QUINTANA STRESSED THE IMPORTANCE OF MONETARY POLICY AS A MEANS OF DEALING WITH INFLATION AND ASID THE GOVERNMENT WOULD MOVE FORWARD VIGOROUSLY IN THIS AREA. HE RECOGNIZED THAT SUCH A POLICY MIGHT HAVE NEGATIVE EFFECT ON MEDIUM AND SMALL BUSINESSES BUT HE EXPECTED TO TAKE CERTAIN MEASURES TO HELP THEM. HE OBSERVED THAT SO MUCH HAD ALREADY BEEN DONE TO PROVIDE INCENTIVES FOR DOMESTIC INVESTMENTS AND SAVINGS, HE WAS NOT QUITE SURE WHAT OTHER MEASURES

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 06436 301941Z

COULD STILL BE TAKEN. HE WAS OPTIMISTIC THAT THERE WOULD BE A GENERAL IMPROVEMENT IN THE BALANCE OF PAYMENTS SITUATION AND THAT THIS WAS A PROBLEM WHICH THE SPANISH COULD HANDLE ON THEIR OWN THIS YEAR.

6. FINALLY, FUENTES QUINTANA EXPRESSED CONCERN REGARDING THE SLOW-DOWN IN FOREIGN INVESTMENTS. IT WAS IMPORTANT FOR SPAIN TO ENCOURAGE A CLIMATE WHICH WOULD GET THE PROSPECTIVE FOREIGN INVESTOR PAST THE "WAIT-AND-SEE" STAGE. HE ACKNOWLEDGED THAT THIS ATTITUDE WAS NOT A SURPRISING ONE AT THIS STAGE BUT HE HOPED THAT AS THE GOVERNMENT'S PROGRAM WAS IMPLEMENTED THIS WOULD RESTORE CONFIDENCE TO FOREIGN INVESTORS.

7. I TOLD FUENTES QUINTANA THAT THE ECONOMIC PROGRAM SEEMED TO US TO BE A COHERENT AND BALANCED ONE AND THAT WE WISHED HIM WELL. THE US WAS READY TO BE HELPFUL TO SPAIN WITHIN THE FRAMEWORK OF INTERNATIONAL INSTITUTIONS SUCH AS THE IMF. I EXPLAINED THAT GOVERNMENT-TO-GOVERNMENT ARRANGEMENTS WOULD BE DIFFICULT.

8. FUENTES QUINTANA INDICATED HE WAS NOT SEEKING BILATERAL ARRANGEMENTS AND SAID HE LOOKED FORWARD TO MEETING WITH WITTEVEEN TO DISCUSS IMF ATTITUDES.

9. COMMENT. FUENTES QUINTANA IS AN IMPRESSIVE PERSON WHO OBVIOUSLY IS IN FULL CHARGE OF THE ECONOMIC TEAM. HE RECOGNIZES THAT THERE IS MUCH TO BE DONE, THAT THERE IS A LIMIT TO THE "AUSTERITY" WHICH CAN BE IMPOSED IN THE PRESENT POLITICAL SITUATION, AND THAT IT IS PRUDENT NOT TO UNDERESTIMATE THE DIFFICULTIES. STABLER

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